Fitch Affirms Indonesia's PT XL Axiata at 'BBB/AAA (idn)'; Outlook Stable

(The following statement was released by the rating agency) JAKARTA/SINGAPORE/SYDNEY, January 22 (Fitch) Fitch Ratings has affirmed Indonesia-based PT XL Axiata Tbk's (XL) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDR) at 'BBB'. Simultaneously, Fitch Ratings Indonesia has affirmed XL's National Long-Term Rating at 'AAA (idn)'.

The Outlooks are Stable. 'AAA' National Ratings denote the highest rating assigned by Fitch on its national rating scale for that country. This rating is assigned to issuers or obligations with the lowest expectation of default risk relative to all other issuers or obligations in the same country.

KEY RATING DRIVERS Axiata's Support: XL's 'BBB' rating is closely aligned with its 66.5% parent Axiata Group Berhad's (Axiata) credit strength.

Fitch rates XL on a top-down basis according to its parent and subsidiary rating criteria, given its strategic and financial importance to its parent. XL is Axiata's fastest-growing subsidiary and it accounted for 35% and 34% of Axiata's revenue and EBITDA, respectively, during the nine months ended 30 September 2014. We believe Axiata has both the willingness and the ability to support XL should this be required, given XL's size and their common brand. Axiata has historically demonstrated support to XL, most recently through a USD500m loan extended to XL to partially fund the IDR10trn acquisition of PT Axis Telecom (Axis).

2015 Leverage to Improve: XL's 2015 funds flow from operations (FFO)-adjusted net leverage will improve to around 3.0 xs from 3.5 xs in 2014 due to proceeds of IDR5.6trn (USD467m) from the sale of 3,500 towers and IDR1.1trn from the sale of treasury shares. XL will likely use the cash to repay part of its IDR30trn debt. XL's leverage deteriorated to 3.5x in 2014 when it bought 95% of Axis. Tower Monetisation: XL's sale and lease back transaction of 3,500 towers with PT Solusi Tunas Pratama Tbk (STP) is credit positive as the cash proceeds outweigh the

impact of the debt-like lease commitments to STP and revenue loss from colocations. XL will also benefit from below-market average rentals of IDR10m per month per tower. Fitch believes that XL could further monetise its remaining 6,500 towers during 2015-16 to further deleverage. Mid-Single Digit Growth: We expect XL's 2015 revenue to increase by mid-single digits in line with the industry, driven by fast-growing data services as the availability of cheaper smartphones improves. XL's operating EBITDAR margin will remain at around 40% during 2015-16 as lower-margin data services substitute more profitable voice/text services as data tariffs remain depressed.

However, we expect XL's profitability to benefit from operating cost savings from the Axis acquisition as duplicate infrastructure expenses are eliminated. During 2013-14, price-cutting in the data segment resulted in the segment's EBITDA margin reaching 15%-20% - much lower than traditional voice and data's profitability of over 40%.

Data tariffs gradually declined as telcos favoured promoting internet adoption over profitability. XL's average data tariff per megabyte fell to IDR40 in 2014 from IDR70 a year earlier.

Negative FCF in 2015: XL's free cash flow (FCF) will likely be negative in 2015 as its FFO of IDR7trn will just be sufficient to fund its guided capex of IDR7trn to expand its coverage and the capacity of its 3G network, and strengthen its optical fibre backhaul network.

However, we expect FCF to be positive in 2016 as capex savings are realised from the Axis acquisition. XL's data-related capex is likely to slow because the company invested ahead of its competitors. We expect XL to continue with its 30% payout dividend policy. Data Competition to Ease: We expect intense data competition to force smaller, loss-making operators to consider exiting the market, which would reduce the number of operators to four from six, and bring more stability to data tariffs.

Code division multiple access (CDMA) operators have already consolidated in 2014 with PT Smartfren Telecom Tbk (CCC(idn)) now emerging as the sole CDMA operator while PT Telekomunikasi Indonesia Tbk's (BBB-/Stable) Flexi division and PT Bakrie Telecom Tbk have

shut their struggling CDMA operations. RATING SENSITIVITIES Positive: Future developments that may, individually or collectively, lead to positive rating action include: - an upgrade in Fitch's credit view of Axiata will benefit XL's international ratings.

However, an upgrade of the Foreign-Currency IDR would be contingent on Indonesia's Country Ceiling of 'BBB' being upgraded. XL's Foreign Currency IDR is currently at the same level as the Country Ceiling.

Negative: Future developments that may, individually or collectively, lead to negative rating action include: - a downgrade of Indonesia's Country Ceiling, which would lead to a downgrade in XL's Foreign-Currency IDR - weakening of linkages with Axiata - a downgrade of Fitch's credit view of Axiata Contacts: Primary Analysts Nitin Soni (International ratings) Director +65 6796 7235 Fitch Ratings Singapore Pte Ltd 6 Temasek Boulevard #35-05 Suntec City Tower 4 Singapore 038986 Olly Prayudi (National ratings) Associate Director +62 21 29026412 Fitch Ratings Indonesia Prudential Tower 20th Floor Jl. Jend. Sudirman Kav.79 Jakarta 12910 Secondary Analyst Olly Prayudi (International Ratings) Associate Director +62 21 29026412 Committee Chairperson Steve Durose Senior Director +61 2 8256 0307 Media Relations: Iselle Gonzalez, Sydney, Tel: +61 2 8256 0326, Email: iselle.gonzalez@fitchratings.com; Leslie Tan, Singapore, Tel: +65 67 96 7234, Email: leslie.tan@fitchratings.com. Note to editors: Fitch's National ratings provide a relative measure of creditworthiness for rated entities in countries with relatively low international sovereign ratings and where there is demand for such ratings.

The best risk within a country is rated 'AAA' and other credits are rated only relative to this risk. National ratings are designed for use mainly by local investors in local markets and are signified by the addition of an identifier for the country concerned, such as 'AAA(idn)' for National ratings in Indonesia. Specific letter grades are not therefore internationally comparable.